

FINANCE REPORT**Purpose**

1. To provide the National Committee with an update on:
 - Forestry Commission England and Central Services (FCE/CS) financial position at end December (Period 09);
 - Business Planning;
 - Internal Audit; and,
 - the finance risk assessment.

2017/18 Financial Position – End December (Period 09)

2. The summary forecast position of the various FCE/CS high level budget targets is illustrated in the following table:

Category	2017/18 Original Budget	Q1 Approved Budget	Q2 Approved Budget	Q3 Approved Changes	Q3 Approved Budget	Pending Budget Changes	Indicative Forecast @ AP9
	£m	£m	£m	£m	£m	£m	£m
Net RDEL	44.61	40.76	41.21	0.74	41.95	- 0.28	41.67
Net CDEL	8.42	6.62	6.62	0.38	7.00	- 0.62	6.38
Net RAME	0.15	0.15	0.15	-	0.15	-	0.15
RDPE Grants	27.50	27.50	27.50	-	27.50	- 4.50	23.00

Notes: 1. RDEL figures include depreciation.

3. The budget changes approved by Defra in Quarter 3 were:

RDEL

- +£0.43m EU Exit Tranche 2 (T2) funding
- +£0.30m VR Exit Cost cover
- +£0.01m Stakeholder communications budget transfer from Core Defra

CDEL

- +£0.26m Plant Health budget transfer from core Defra
- +£0.12m EU Exit Tranche 2 (T2) funding

4. The Quarter 3 pending budget changes comprise:

RDEL

- -£0.28m Forestry Innovation Fund (FiF) forecast reduction

CDEL

- -£1.00m Woodland Carbon Fund (WCF) forecast reduction
 - +£0.28m Felling Licence IT development
 - +£0.10m IT 'run & maintain' items.
5. The CDEL budget and forecast also contains £3.9m for Research & Development capital expense within CFS/FR.
 6. The RDPE forecast has reduced by £4.5m to £23m due to a large 2016/17 accrual release and an over optimistic Higher Tier forecast.
 7. Annex A sets out the Period 9 forecast financial position in more detail. Annex B provides further background on FEE's financial position.

Business Planning

8. We continue to be actively engaged with Defra and other ALBs in developing savings measures to bridge a significant departmental wide budget gap in 2018/19.
9. The savings measures put forward by FCE, if accepted, are not expected to significantly disrupt front-line activities. However, until Defra's business plan for 2018/19 is concluded in February there remains a risk that FCE/CS are asked to develop further material savings measures.
10. The aim remains to submit a balanced business plan for approval to the ENC in late February/early March.

Internal Audit

11. GIAA continue to make good progress in getting the audit plan back on track by the year end through a mix of internal and contractor resource. They have confirmed that they expect to be able to deliver the plan within budget, and in time for the year-end opinion. They estimate the majority of audits will be concluded by the 31st March, with any 'tail' of work managed and delivered before the year-end governance statement.
12. We are in discussion with GIAA on how best to clear the back-ended programme through the ARAC. It is likely that GIAA will issue small batches of reports with a supporting summary narrative in between meetings.
13. Sally Flett, the new HIA, started on 8th January and GIAA have also secured SEO [PB3] resources from the recent recruitment campaign and anticipate them being in post around February/March.

Finance Risk Assessment

2017/18 Budget

14. Although a balanced budget is in place Defra may seek to impose a commitments restriction, or savings requirement, if the timing of transformation and other efficiencies across the Department do not materialise as expected.

2018/19 – 2019/20 Baselines

15. There is a risk of adjustment to FC's baselines through Defra seeking to close the budget gap in 2018/19, and through the departmental spending review next year which was recently announced by the government.
16. We will continue to seek to mitigate this through close engagement via the Outcome Systems Groups.

Internal Audit

17. There is a risk that the delay in recruiting into the new FC GIAA team will result in a failure to deliver the approved internal audit plan, and a lack of assurance for Accounting Officers and ARAC's at year end.
18. This is being mitigated through the use of a temporary mix of GIAA and contractor resource to deliver the programme of work until the permanent team are in place, and close liaison with GIAA

Recommendations

19. The Committee is invited to note and discuss:
 - the financial position as at end December (AP09);
 - progress on business planning;
 - Internal Audit; and,
 - the finance risk assessment.

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